

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Henry McMorran Memorial Auditorium Authority</u>	County St. Clair
Audit Date June 30, 2004	Opinion Date September 10, 2004	Date Accountant Report Submitted To State: December 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 S. Main St., Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Henry McMorran Memorial
Auditorium Authority
City of Port Huron, Michigan**

**Financial Report
June 30, 2004**

Henry McMorran Memorial Auditorium Authority

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Independent Auditor's Report

To the Honorable Commissioners
Henry McMorran Memorial Auditorium
Authority

We have audited the accompanying basic financial statements of Henry McMorran Memorial Auditorium Authority, a component unit of the City of Port Huron, Michigan, as of June 30, 2004 and 2003 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Henry McMorran Memorial Auditorium Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry McMorran Memorial Auditorium Authority as of June 30, 2004 and 2003 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Henry McMorran Memorial Auditorium Authority has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 10, 2004

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Henry McMorran Memorial Auditorium Authority

Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current assets:		
Cash (Note 2)	\$ 89,222	\$ -
Accounts receivable (Note 1)	32,290	22,809
Accounts receivable - Related party	-	25,049
Inventories	11,566	10,391
Prepaid and other	15,858	19,201
Total current assets	148,936	77,450
Restricted assets (Note 3)	1,387,543	1,423,828
Property and equipment - Net (Note 5)	2,425,172	2,757,041
Total assets	3,961,651	4,258,319
Liabilities		
Current liabilities:		
Accounts payable - Trade	43,363	84,635
Accounts payable - Related party	5,980	40,725
Accrued payroll and related taxes	108,360	103,256
Other liabilities	37,345	24,259
Total current liabilities	195,048	252,875
Deferred revenue (Note 6)	1,387,543	1,423,828
Total liabilities	1,582,591	1,676,703
Net Assets		
Invested in capital assets - Net of related debt	2,425,172	2,757,041
Unrestricted	(46,112)	(175,425)
Total net assets	<u>\$ 2,379,060</u>	<u>\$ 2,581,616</u>

Henry McMorran Memorial Auditorium Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating Revenue		
Rental of facilities	\$ 972,237	\$ 894,462
Special attractions and promotions	65,486	56,328
Canteen sales	320,438	292,262
Alcohol sales	103,695	118,874
Parking lot	267,195	240,720
Surcharges	52,224	29,974
Catering and other	59,691	72,544
Total operating revenue	1,840,966	1,705,164
Operating Expenses		
Salaries and wages - Net of reimbursement	731,282	725,160
Employee benefits and payroll taxes	248,668	232,130
Cost of sales - Canteen and alcohol	170,714	175,222
Utilities	299,365	282,023
Repairs, maintenance, and other	598,545	606,196
Provision for depreciation	387,583	377,947
Total operating expenses	2,436,157	2,398,678
Loss from Operations	(595,191)	(693,514)
Nonoperating Revenue		
Appropriation from the City of Port Huron	335,000	335,000
Gain on sale of assets	5,347	-
Interest income	11,940	2,630
Total nonoperating revenue	352,287	337,630
Loss - Before capital contributions	(242,904)	(355,884)
Capital Contributions - From assets constructed with grants or donated from other funds	40,348	672,688
Net Income (Loss)	(202,556)	316,804
Net Assets - Beginning of year	2,581,616	2,264,812
Net Assets - End of year	<u>\$ 2,379,060</u>	<u>\$ 2,581,616</u>

Henry McMorran Memorial Auditorium Authority

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,832,548	\$ 1,709,693
Payments to suppliers	(1,378,055)	(1,292,877)
Payments to employees	(726,178)	(716,806)
Net cash used in operating activities	(271,685)	(299,990)
Cash Flows from Noncapital Financing Activities - Appropriation from the City of Port Huron	335,000	335,000
Cash Flows from Capital and Related Financing Activities		
Payments on advance from the City of Port Huron	-	(23,899)
Acquisition of capital assets	(74,518)	(675,313)
Proceeds from sale of capital assets	24,151	-
Appropriation from the City of Port Huron for capital purchases	25,049	249,950
Funds received from Seeing Stars program and other donations	1,310	31,690
Net cash used in capital and related financing activities	(24,008)	(417,572)
Cash Flows from Investing Activities - Interest received on investments	14,693	19,227
Net Increase (Decrease) in Cash	54,000	(363,335)
Cash - Beginning of year	1,421,765	1,785,100
Cash - End of year	<u>\$ 1,475,765</u>	<u>\$ 1,421,765</u>
Balance Sheet Classification of Cash		
Current assets - Cash	\$ 89,222	\$ -
Restricted assets - Cash	1,386,543	1,421,765
Total balance sheet classification of cash	<u>\$ 1,475,765</u>	<u>\$ 1,421,765</u>
Reconciliation of Loss from Operations to Net Cash from Operating Activities		
Loss from operations	\$ (595,191)	\$ (693,514)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	387,583	377,947
Changes in assets and liabilities:		
(Increase) decrease in receivables	(8,418)	4,529
Increase in inventories	(1,175)	(129)
Decrease in prepaid and other	3,343	2,732
Increase (decrease) in accounts payable	(76,017)	36,411
Increase in accrued payroll	5,104	8,354
Increase (decrease) in other current liabilities	13,086	(36,320)
Net cash used in operating activities	<u>\$ (271,685)</u>	<u>\$ (299,990)</u>

Noncash Investing, Capital, and Financing Activities - During the years ended June 30, 2004 and 2003, there were no noncash investing, capital, or financing activities.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies

Henry McMorran Memorial Auditorium Authority (the "Authority"), a municipal corporation, was organized on August 13, 1956 for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and/or maintaining a civic auditorium and sports arena. The Authority, which was incorporated under the provisions of Act 31, Public Acts of Michigan, 1948, as amended, is a nonprofit corporation and, accordingly, is exempt from income taxes.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity - The Authority has been identified as a component unit of the City of Port Huron (the "City"). GASB Statement No. 14 defines a component unit to include those governmental organizations that are fiscally dependent on the primary government.

The Authority has exclusive jurisdiction over the control, operation, and maintenance of the facilities. The City of Port Huron has contractually assumed responsibility to reimburse the Authority for any excess of operating expenses over revenue received from operations and will be responsible for necessary capital improvements, furnishings, and equipment. There is no time limitation on the financial responsibilities of the City.

The agreement with the City also provides that the Authority shall pay any earnings from the operations of the facilities to the City.

Basis of Accounting - The accrual basis of accounting is used by Henry McMorran Memorial Auditorium Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Accounts Receivable - Accounts receivable are reported net of an allowance for doubtful accounts totaling \$2,400 at June 30, 2004 and 2003.

Inventories - Inventories are stated at the lower of cost or market on a specific identification basis.

Cash Equivalents - The Authority considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Property and Equipment - Land upon which the facilities are located was donated to the Authority by the City of Port Huron. The facilities and original equipment were donated by a philanthropic organization. These properties are stated in the financial statements at the estimated fair value at the date of donation. Expenditures for improvements and equipment from funds derived from operations or City of Port Huron appropriations have been recorded at historical cost.

Depreciation of building, improvements, and equipment is provided over the estimated useful lives of the respective assets by the straight-line method. Contributed capital relating to donated fixed assets is being amortized to fund equity as the related depreciation is being charged to operations.

Deferred Revenue - Deferred revenue represents primarily the unexpended proceeds from the Seeing Stars program and a State of Michigan grant, which are not considered fully earned until the proceeds have been expended for the restricted purposes.

Note 2 - Cash and Cash Equivalents

The Authority's cash and cash equivalents at June 30, 2004 and 2003 are included on the statement of net assets under the following classifications:

	2004	2003
Cash and cash equivalents	\$ 89,222	\$ -
Restricted assets (Note 3)	<u>1,386,543</u>	<u>1,421,765</u>
Total	<u>\$ 1,475,765</u>	<u>\$ 1,421,765</u>

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 2 - Cash and Cash Equivalents (Continued)

The Authority's cash and cash equivalents are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

	<u>2004</u>	<u>2003</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,469,855	\$ 18,341
Investments in securities, mutual funds, and similar vehicles	-	1,396,764
Petty cash or cash on hand	<u>5,910</u>	<u>6,660</u>
Total	<u>\$ 1,475,765</u>	<u>\$ 1,421,765</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$1,477,000 and \$30,000 as of June 30, 2004 and 2003, respectively, of which \$100,000 and \$30,000, respectively, was covered by federal depository insurance. The remaining balances were uninsured and uncollateralized.

Investments - The Authority is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The Authority's investments during the year ended June 30, 2003 of \$1,396,764 consisted solely of bank investment pools. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares. Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Authority held no investments at June 30, 2004.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Restricted Assets

Restricted assets of the Authority have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

Restricted assets at June 30, 2004 and 2003 consist of the following:

	2004	2003
Cash and cash equivalents	\$ 1,386,543	\$ 1,421,765
Other receivables	1,000	2,063
Total	<u>\$ 1,387,543</u>	<u>\$ 1,423,828</u>

Note 4 - Henry McMorran Memorial Auditorium Trust

The instrument governing the Henry McMorran Memorial Auditorium Trust (the "Trust"), held by the City of Port Huron, provides that trust income be used for the preservation, repair, or replacement of the auditorium. There was no trust income provided during the years ended June 30, 2004 and 2003.

Note 5 - Capital Assets

A summary of the Authority's fixed assets at June 30, 2004 and 2003 follows:

	2003	Additions	Deletions	2004
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Building and improvements	6,462,378	53,327	-	6,515,705
Equipment	<u>2,453,328</u>	<u>21,191</u>	<u>54,743</u>	<u>2,419,776</u>
Total fixed assets	8,940,706	74,518	54,743	8,960,481
Less accumulated depreciation	<u>(6,183,665)</u>	<u>(387,583)</u>	<u>(35,939)</u>	<u>(6,535,309)</u>
Net fixed assets	<u>\$ 2,757,041</u>	<u>\$ (313,065)</u>	<u>\$ 18,804</u>	<u>\$ 2,425,172</u>

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 6 - Changes in Deferred Revenue

The following is the activity in the deferred revenue accounts:

	Operating	State Grant	Seeing Stars	Total
Balance - June 30, 2002	\$ 21,781	\$ 1,416,034	\$ 335,414	\$ 1,773,229
Funds received from fund-raising campaign	20,000	-	11,690	31,690
Capital contributions from the City of Port Huron	275,000	-	-	275,000
Funds expended for capital improvements	(316,781)	(29,961)	(325,946)	(672,688)
Interest income - Restricted	-	16,339	258	16,597
Balance - June 30, 2003	-	1,402,412	21,416	1,423,828
Funds received from fund-raising campaign	-	-	1,310	1,310
Funds expended for capital improvements	-	(37,237)	(3,111)	(40,348)
Interest income - Restricted	-	2,753	-	2,753
Balance - June 30, 2004	\$ -	\$ 1,367,928	\$ 19,615	\$ 1,387,543

Note 7 - Interest Income

The following is the interest income earned as of June 30, 2004 and 2003:

	Operating	State Grant	Seeing Stars	Total
Interest income - Operations	\$ 1,310	\$ -	\$ 1,320	\$ 2,630
Interest income - Restricted	-	16,339	258	16,597
Total 2003	\$ 1,310	\$ 16,339	\$ 1,578	\$ 19,227
Interest income - Operations	\$ 975	\$ 10,794	\$ 171	\$ 11,940
Interest income - Restricted	-	2,753	-	2,753
Total 2004	\$ 975	\$ 13,547	\$ 171	\$ 14,693

The restricted interest income represents interest earned on contributions that have been restricted for a specific purpose; hence, such amounts have been recorded as deferred revenue.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2004 and 2003

Note 8 - Employee Retirement System

All of the Authority's full-time employees participate in the Municipal Employees' Retirement System of Michigan (MERS), a multiemployer agent pension plan established by Act 427, Public Acts of 1984 of the State of Michigan. The Authority has 13 active participants whose total payroll was \$424,326 and \$469,030 for the years ended June 30, 2004 and 2003, respectively. The Authority's pension expense for the years ended June 30, 2004 and 2003 was \$25,344 and \$19,068, respectively.

The Authority met all actuarially determined employer contribution requirements for the years ended June 30, 2004 and 2003. Additional information regarding the plan's operation, significant actuarial assumptions, trend information, and funding status and progress can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which the Authority is a component unit. The pension benefit obligation and net assets available for benefits for the Authority alone, separate from the plan as a whole, are not provided in the actuarial report.

Note 9 - Risk Management

The Authority participates in the Michigan Municipal Risk Management Authority program for general, auto, professional, public officials, and errors and omissions liabilities. The Authority is uninsured for acts of God and environmental cleanup losses. Past experience indicates that the initial pass-through of premium charges by the City of Port Huron has been sufficient to cover the liabilities and settled claims under this program. Past experience also shows that, for the Authority, incurred but not reported claims have not been significant in amount. Further details of how the Michigan Municipal Risk Management Authority pool operates can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which Henry McMorran Memorial Auditorium Authority is a component unit.

Note 10 - Seeing Stars Pledge

In August 1999, an individual pledged to give the Authority's Seeing Stars campaign a \$500,000 donation restricted for the auditorium renovations. The pledge stipulates that the donor will match all donations received by the Authority in the amount of \$10,000 or greater until the \$500,000 amount has been met. As of June 30, 2004, \$414,885 has been received under this pledge.